

A Year Of Living Dangerously

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Friends & Colleagues:

In a world experiencing constant and unexpected change, challenge, conflict and opportunity, the choices we make as individuals and as an organization will have a lasting and often profound impact. The iconic '60s band Buffalo Springfield is best known for their song, "For What It's Worth," which contained simple, yet prophetic lyrics, "There's somethin' happenin' here, What it is ain't exactly clear..." What had been a "sure thing" is now relegated to "I'm-not-sure" status in the future. What we could depend on is now unclear, uncertain and unpredictable. The shift to identity politics; the insecurities created by the Internet of Everything; the impact/intrusion of Big Data and predictive analytics; conflicting blueprints/ideas for progress; emergence of civic, social and entrepreneurial achievers; and the doubt in minds of many formerly optimistic real estate leaders, are but a few of many behavioral outcomes in which "what's-in-it-for-me," transcends "what-is-best-for-all-of-us" policies and decisions. **Today we should not be reflecting on how far we have come, but instead asking ourselves how far we have to go. In a time and year of living dangerously, if you don't know where they are going, you could end up someplace else...and that someplace else may not be what you were expecting.**

I am absolutely convinced that factually and emotionally we are not struggling to clarify yesterday, but we are, at times, severely challenged on figuring out where we are going. The uncertainty and insecurities regarding tomorrow has kept many entrenched in the past. **The "I-know-what-I-know" mindset creates opportunities for political and corporate manipulation of emotions and insecurities and does little or nothing to "get things right."** Divisiveness and fractionalization tend

to accelerate in times of uncertainty. Sound bites have replaced constructive dialogue. **The unexpected has become the new norm.** But more importantly, we are in a time of dramatic, transformative change in the real estate industry, **moving from what was to what eventually will be.** During that interim period (between what was and what will become), individuals, real estate

Changing Business Paradigm	
Old School	New School
Fine-tune existing practices	→ Re-invent existing practices
Manage opportunities	→ Create opportunities
Focus on competitors	→ Focus on customers and knowledge
Legacy systems and policies	→ Value-creating systems and processes
Connected by employment	→ Connected by a motivating vision
Success as a goal	→ Success as a recurring outcome
Individual aspirations	→ Collective purpose and alignment
Keeping score	→ Shaping a future...creating a destiny
Trying to change how people think	→ Trying to get people to think differently
Process and procedures	→ Flexibility and customization
The way we have always done it	→ The way it should be done

Source: CEL & Associates, Inc.

companies, CEOs, Boards of Directors and leaders must “get-it-right.” **The decisions made today will determine success tomorrow.** In a Rubik’s Cube of options, uniformly desired outcomes remain ...including a desire to exceed expectations, fulfill aspirations and remain vibrant, relevant and sustainable for years to come.

As President Abraham Lincoln so eloquently stated, “**The best way to predict the future is to create it.**” In a period of unprecedented, unexpected and underestimated change, everyone in the real estate industry is about to experience a few years of “Living Dangerously.” In this issue of *Strategic Advantage*, we will highlight six transformative factors that will create unprecedented opportunities if handled correctly. In 2019 we will see not a “Year of Living Dangerously,” but a year that begins to re-establish the valuable and critical role of real estate in society...and that is great news!

[Real Estate Industry’s Role In Society](#)

Real estate is the unfinished business of society. Unlike many other timely industries, **the real estate industry is timeless. The vision, efforts, risks taken, and sacrifices made by real estate entrepreneurs have shaped and revitalized every city, town and community in the U.S.** The real estate industry has created places to live, work, shop, stay and recreate. The industry has anticipated and responded to consumer and occupier demands and expectations. Visionary real estate leaders have transformed cities, waterfronts, urban blight and destinations into “want-to-be” vs. “need-to-be” places. Real estate practitioners, developers, service and capital providers have created experiences, environments and entrepreneurial places that acknowledge the past, celebrate today and create imaginative solutions for tomorrow. **Real estate practitioners, at all levels, continue to have the greatest impact on a community, society’s well-being and the lives of individuals.**

The real estate industry is the foundation of America’s heritage; the responsibility of each generation and the cornerstone of America’s history. The home has become a symbol of independence, self-determination and perseverance. The apartment has become a launching pad for generations of students, job seekers, entrepreneurs, newly formed households and recently arrived workers. The workplace has become an unofficial townhall for connecting, socializing, networking and continuous learning. Retail centers have become a place to gather, entertain, socialize, shop and fulfill experiences. For centuries **the real estate industry has been a laboratory for American exceptionalism, community development, societal solutions and inclusion.**

Despite burdens, barriers, tribalism and speed bumps placed by retrenched-in-the-past governmental bodies and agencies, institutions, and “only-for-this-moment” political leadership in many states and cities, **the real estate industry has survived, flourished and truly made a difference.** Real estate companies don’t create apartment units, they create places residents call “their home.” Office real estate

The New Business Model	
Current Model	Future Model
Dominated By Personalities	→ Dominated By Knowledge
Staffed By Employees	→ Comprised Of Collaborative Talent
Hierarchical Structure/Silos	→ Virtual Integration & Teams
Geo-Centric	→ Knowledge-Centric
Driven By Process	→ Driven By Creators Of Value
Governed By Organizational Charts	→ Consisting Of Networks & Alliances
Market Share	→ Customer Share
Based On Contracts	→ Based On Relationships & Connectivity
On-Time Fulfillment	→ Real-Time Fulfillment
Commodity-Driven	→ Experience-Driven
Service By Policy & Edicts	→ Service By Intuitive Behavior
Focus On Service	→ Focus On Solutions
Collecting Assets	→ Collecting Valued Relationships

Source: CEL & Associates, Inc.

companies don’t create space, they create workplace environments. Retail real estate companies don’t create space for tenants, they create experiential destinations for consumers. Real estate hospitality companies don’t provide beds, they provide a home-away-from home. Industrial warehouse real estate companies don’t create boxes, they create consumer-based, transition facilities. Indeed, real estate’s role in shaping positive, societal outcomes is significant.

When cities are struggling, want to create jobs, seek to increase revenues for education and social services (think higher property taxes), they uniformly turn to the real estate industry. When employers want to create space that attracts the best and brightest workforce, they turn to the real estate industry for solutions. When cities have housing affordability issues, or need to “reinvent” blighted areas, they turn to the real estate industry to lead the way. When retailers want to create destinations that appeal to tenants and consumers, they turn to the real estate industry for creative solutions. **Civic, community, tenant, resident and investor pride are manifestations of outcomes created by the real estate industry.** The recent beauty contest to secure Amazon’s next corporate facility is only one of the literally thousands of efforts made daily by communities eager to attract job creators and “needle movers” to their city. Almost every city in America has turned to the real estate industry for innovative



solutions and strategies to improve the lives of its community residents. Yes, **the real estate industry has, continues to have, and will forever have a vital role in shaping where society lives, works, shops and recreates.**

Today, as it has occurred too frequently in the past, the real estate industry has been labeled the “cause” of problems or has become the convenient villain created by poor public policy and legislative decisions. Many outstanding projects are, unfortunately, lost in a verbal blame game (“too much traffic congestion,” “not enough green space,” “high housing costs,” and/or “suburbanization”). Rather than focusing on making our communities better, some community leaders prefer to legislate life styles, behaviors and collective outcomes. **The recipe for success is letting real estate professionals do what they do best** within the long-term visionary confines of “improving communities and the lives of those who live there.”

Technology Disrupters

Mobile / Wearable Technology	Cloud Technology	Energy Storage	3-D Printing
<ul style="list-style-type: none"> 6 billion devices connect in 2016...75 billion by 2025. Hologram phones by 2020. Virtual reality tours (\$80 billion industry by 2025). The office, home and mobile devices are becoming one. Work and commerce now follow the person. 	<ul style="list-style-type: none"> 80% of all apps will run in the cloud by 2025. All enterprise data will be in the cloud by 2025. Nearly 80% of IT budgets will be spent on cloud technology by 2025. 85% of CRM tools will be delivered by cloud in 2025. 	<ul style="list-style-type: none"> Every home/unit will have a battery on the distributed grid. \$10.8 billion market by 2025. Rise of the zero-energy building...the “Living Building.” Charging personal devices from space. Energy storage to grow 14x by 2025. 	<ul style="list-style-type: none"> \$5.1 billion in 2016...going to \$35 billion by 2020. 42% of manufacturers intend to use 3D printing by 2020. Massive supply chain disruption. Building materials manufactured onsite.
The Internet Of Everything	Advanced Robotics	Next-Generation Genomics	Social Media
<ul style="list-style-type: none"> Rise of personal robots (35 million by 2020). Rise of industrial robots (\$45 billion industry by 2025). 47% of all jobs in the U.S. can be automated. \$7.1 trillion market by 2025. 	<ul style="list-style-type: none"> Surgeries, healthcare, legal, financial services at risk. Manufacturing and emergence of Fetch robots. 65% of children in primary school today will work in a job that does not exist currently. Driverless cars, trucks and planes. 	<ul style="list-style-type: none"> Medical care and cures will be revolutionary. Ability to improve agriculture production. Ability to create bio-fuels. Nearly every body part is replaceable. 	<ul style="list-style-type: none"> Battle for share of engagement. Advertisers and customers connected by predictors. By 2025, clothes will detect feelings and needs. 2.0 billion social media users in 2016.

Source: CEL & Associates, Inc.

To survive and prosper in a Year of Living Dangerously, real estate firms, leaders and Boards of Directors must focus on creating and adopting key strategies and action plans around the following six key transformative factors.

Organizational Architecture Will Be Dramatically Different In The Future

To address tomorrow’s real estate needs and expectations of one’s clients, customers, occupiers, investors and/or users, the successful organization of tomorrow must be nimble, dynamic, adaptive, knowledge-based, flexible and accommodating. **Real estate firms, like society, have morphed into ecosystems that reject traditional hierarchical structures and blur the distinction between those who cooperate and those who collaborate.** As technology and artificial intelligence advancements assume an ever-increasing role in business practices and execution, traditional forecasting and spreadsheet analytics become less reliable. Building a scalable real estate organization and culture will involve creating a balance between technological solutions, critical thinking and instinctive behaviors. Bureaucracy and Managers who manage Managers, redundancy and burdensome processes must be avoided at all costs. **High performing real estate organizations will rely increasingly upon** proprietary data, predictive analytics and innovation, while possessing the

ability/capacity to organize for the unpredictable, the unforeseen surprises and the unknown. **Speed, agility and a continuous learning loop will promote a competitive advantage.**

By 2025 many real estate firms will have shifted away from the hierarchical structures of the past 50 years and will have embraced for-the-need teams, information transparency and innovation. **A**

network of teams built around those who create value, add value, protect value, and enhance value will be commonplace organizational structures.

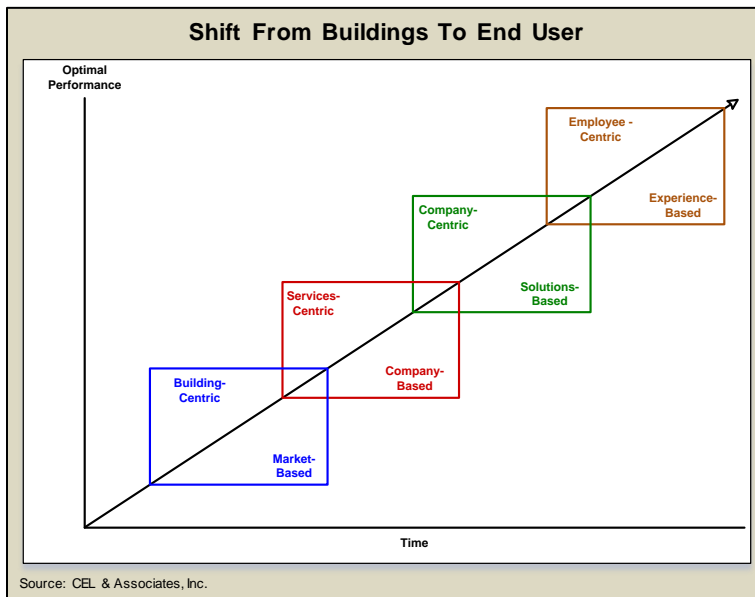
Gone will be functional, legacy, personality-based and siloed structures generally found in many real estate firms today. In a Year of Living Dangerously, real estate CEOs and Boards of

2019 Top Priorities	Rank
Preparing For The Eventual Cycle Shift	1
Securing Long-Term Growth Capital	2
Growing Recurring Revenues To Cover Overhead	3
Locking In HIPOs And Next-Generation Stars	4
Controlling Rising Operating Costs	5
Building Dry Powder For Future Distressed Opportunities	6
Investing In Technology & Analytics	7
Brand Differentiation & Building Brand Value	8
Shedding Non-Core Assets & Low Profit Clients	9
Developing Succession Plans For All Mission Critical Positions	10
Growing Market Share & Client Share	11
Increasing Worker/Company Productivity	12

Source: CEL & Associates, Inc.

Directors will need to **take control of their destiny, master the art of the digital age, prioritize economies of scale and embrace new business ecosystems.**

While real estate companies respond to the tsunami of change ahead, real estate leaders must be visionary, transformative, resilient, flexible, critical thinkers, aspirational and personify the brand. Real estate firms should worry less about others and increase their attention on creating the



organizational architecture needed to succeed in tomorrow's highly competitive, rapidly changing, often surprising marketplace. The concepts of integrated learning loops; continuous feedback and self-tuning; creating an ongoing sense of urgency [not operating under a *crisis du jour* mindset]; and moving beyond Gantt charts, siloed boxes, and unclear accountability will result in an organizational structure that encourages innovation, change and differentiating

solutions. Every real estate organization must remove the barriers to success. In the Year of Living

Dangerously, **real estate leaders, regardless of function or department, must challenge basic assumptions, must “come of age” in today’s digital/dynamic marketplace and must be aspirational and inspirational to all who work there.** Shifting to an “emergent plan” where strategies are simultaneously executed, where decisions are adherent to visionary guideposts and principles, and where clarity of values, culture, purpose and priorities are known and fully integrated into a company’s DNA, will be essential over the next several years.

In a Year of Living Dangerously designing, creating and implementing a contemporary organizational structure will be imperative. It is not an option...it is a requirement!

Put The Right People In The Right Roles At The Right Times & For The Right Reasons

The readers of *Strategic Advantage* know as a result of our nearly 25 years of research, forecasts and recommended value-creating strategies that the pre-eminent role of leadership and talent is essential. **Nothing, absolutely nothing, gets done in the real estate industry without involvement and/or contributing input from and decisions made**

SHIFTS IN TALENT MANAGEMENT	
Old Way	New Way
□ Standardized Policies	→ □ Governing Practices
□ Standardized Training	→ □ Personalized Improvement
□ Check-The-Box Hiring	→ □ Core Competency & Values Hiring
□ One Week Onboarding	→ □ Never-Ending Onboarding
□ Training As A Cost	→ □ Training As An Investment
□ Orchestrated Practices	→ □ Orchestrated People
□ Human Resources	→ □ Talent Management
□ Set Procedures	→ □ Ingrained Behaviors
□ On-High Directives	→ □ Engaged Solutions
□ On-High Decisions	→ □ Collaborative Decisions
□ One Star	→ □ Galaxy Of Stars

Source: CEL & Associates, Inc.

by people. However, in the New Age of Real Estate, real estate companies need transformative leaders, visionary leadership, timely specialists and valued strategic resources to implement one’s business model successfully. Gone are the days when people could “evolve” over time. In today’s rapidly-changing, high octane workplace environment, real estate firms require empowered, talented and dynamic personnel who do not need to be “managed” or “told what to do.” **Tomorrow’s talent must be able to persevere, step out of their comfort zone, be perceived as authentic and not be satisfied with yesterday’s processes and outcomes.** Harnessing the power of human capital in the digital age is a challenge and an opportunity.

By 2025: nearly 50% of the workforce will be temporary or contingent workers; 40% of the workforce will be Millennials; and an increasing percentage of those working in real estate firms will be decentralized. Women, who compose around 57% of college students today, will be increasing their C-suite leadership roles. **Nearly 85% of the jobs that will exist in 2030 have not been invented yet. Human capital in the U.S., according to the Korn Ferry Institute, is 3.92 times more valuable than the physical capital.** Talent determines outcomes. Transparent collaboration and a workforce that is available at any time, any day, any location will be commonplace. Talent Managers [formerly holding



the title Human Resource Directors] will become Workforce or Workplace Advisors, and the term “employee” will disappear into the lexicon of the past...replaced by terms such as “Collaborators”, “Company Partners” or “Valued or Strategic ICs.”

To get the right people in the right roles, at the right time for the right reasons, real estate firms must integrate technology, predictive talent-based analytics, talent management consultancy and automation into the human resources function. In tomorrow’s dynamic marketplace, **real estate firms cannot assign roles and responsibilities to those ill-prepared for tomorrow’s performance expectations.** One cannot move people around a chess board of needs as if everyone can do everything well...where everyone is interchangeable...all the time. In tomorrow’s dynamic market, real estate firms will rely increasingly on psychological profiling, core competency hiring, outsourcing, use of Independent Contractors and Specialists, continuous learning, and enhanced personnel and professional development activities.

In the future, finding, placing and empowering talent, regardless of their employee or employment status, will be critical. Equally, **having a robust, contemporary and comprehensive compensation and benefits package in place will be essential.** Accountable/performance-based annual incentives, competitive base salaries and aligned, long-term incentives are requisite tools to attract and retain the best talent. In a marketplace currently lacking in an abundance of “available,” exceptional talent and operating in an environment where **work follows the worker**, real estate firms must find and perfect a trusted pool of talented individuals who can work successfully in collaborative teams. **Over the next two decades, robots could replace up to 40% of today’s workforce.** Work, jobs and performance expectations are rapidly changing. Many real estate positions probably will be eliminated, and many new jobs which do not exist today will be created. Thus, in a Year of Living Dangerously, real estate Board of Directors and leaders must be very careful in developing staffing plans for roles that are disappearing, assigning responsibilities to those unable to meet performance expectations, and designing work schedules that are not 24/7. I encourage you to read our *Strategic Advantage* newsletter regarding the future of work ([Issue #011718](#)) for further insights on how work and workers are changing the real estate industry.

Take Control Of Your Destiny & Secure Your Future...Or Someone Else Will

Destiny or the ability to control your future, and/or that of your company, should not be a matter of chance but of choice. Jack Welch, the former Chairman and CEO of General Electric [“GE”] said, “Control your destiny or someone else will.” In the real estate industry, too many companies, Boards of Directors, Founders, Partners and CEOs relegate the future to chance by believing that tomorrow will be just like yesterday or today. When one takes steps and enacts business practices and processes around securing a future, the capacity and propensity to succeed is unlimited. Who or what real estate firm would want to place their future in the hands of fate? When the real estate industry is



about to enter a Year of Living Dangerously, letting others take steps to prevent your firm from controlling its destiny is a clear failure of leadership and responsibility. **Why bet on luck when success can be assured?** Why fear the unknown when solutions that reduce or eliminate fear are readily at hand? You, not anyone or anything else, are the creator of your own destiny. As William Shakespeare wrote, **“It is not in the stars to hold our destiny but in ourselves”**... so what is stopping you from taking control?

To control their destiny and secure their future, real estate firms must create and **implement a sustainable governance structure**. There is absolutely no reason why companies can't go on for years and decades to come, except when a firm lacks the governance structure that shifts the outcome from one or a handful of Founders/Shareholders to a structured governance body that is empowered to assure success tomorrow. From CEOs to COOs, from CIOs to CFOs, from Division or Department Executives to Regional and Functional leaders and from Founders to Next-Generation Stars, it is

essential to create a governance structure [Board of Directors] that is empowered, aligned and active in fulfilling an aligned vision and exceeding Stakeholder expectations. However, **do not fall into legacy traps**. Independent Board Members *must not be*: [1] retired; [2] a former employee; [3] a major client or investor; [4] the firm's

REAL ESTATE INDUSTRY'S TALENT TRENDS		
Era	Name	RE Employment Characteristics
2000s	The Great Reset	– Dramatic real estate employment highs and lows
		– Capital and entity rebalancing
		– Organization and operational platforms redesigned
2010s	Gray Wave Peaking	– Boomers are peaking
		– Consolidation and legacy exits
		– Technology takes center stage
2020s	Work For Me Era	– Compensation and HIPO retention #1 priority
		– Redefinition of work and jobs – focus on talent
		– Age of AI, robotics, automation, and young professionals

Source: CEL & Associates, Inc.

lawyer or accountant; [5] a friend, spouse, sibling, heir or competitor; and [6] from an industry unfamiliar with real estate. In addition, **securing a long-term source of capital** is essential for stability, plus an ability to weather downturns and for investing in growth initiatives. **Trolling for dollars to invest in a single asset...time and time again...is not effective, efficient or a long-term solution**. Raising capital is difficult enough, so why compound the challenge by repetitive raises when an aligned, secured capital source removes the stress of telling a convincing story every time? Whether the secured source of capital is a high net-worth family/individual, a fund, a dedicated or specific fund or allocation, separate account, a sovereign or endowment investor, a public or private REIT, among other capital options, real estate firms must remove the stress, distraction and barriers to gaining access to capital. Having equity and access to financing on favorable terms is very important in a Year of Living Dangerously.

Further, **generating sufficient, pre-allocation net operating income from secured, recurring fees that can “cover” 100% of corporate overhead** is another factor in controlling your



destiny. Why worry if you will be able to be operationally profitable each week or month, when profits from recurring fees can eliminate that risk? Recurring fees come from asset, property and capital management sources.

Creating, if you are a developer or investor, a **Guarantee Corporation** to remove all personal guarantees is critical to controlling a firm's destiny. Securing your future means eliminating or significantly reducing risk...not growing potential obligations and risks.

Identifying, perfecting and securing successors for all mission-critical positions is another way to control tomorrow's outcome. It should be a concern to all that: [1] only 30% of real estate firms survive into the 2nd generation and only 12% survive into the 3rd generation; [2] promoting future leaders within real estate firms has only a 70% – 75% success rate; [3] only 65% of real estate firms have communicated their succession plan to the firm and only 44% of today's real estate CEOs are "satisfied" with their entire leadership team; and [4] only 15% of small to mid-size real estate firms have a formal succession plan. A recent CEL & Associates, Inc. survey of real estate firms found only 32% have a designated or assumed #2 Successor to the CEO. Clearly planning for tomorrow is not often viewed as a priority...but it should be! In the same CEL & Associates, Inc. survey, **33% of real estate CEOs plan to retire in 10 years or less.**

THE REAL ESTATE INDUSTRY IS IMPACTED BY MEGA AND SUPER CYCLES

Mega Cycles – Occur Every 40 Years	
1880 - 1920	Industrial Era
1920 - 1960	Nation Building
1960 - 2000	Boomer Awakening
2000 - 2040	Digital Age
Super Cycles – Occur Every 20 Years	
1880 - 1900	Rural Connectivity
1900 - 1920	Industrial Transformation
1920 - 1940	Infrastructure Expansion
1940 - 1960	Post-War Economy
1960 - 1980	Period of Change & Challenge
1980 - 2000	Financial Engineering
2000 - 2020	Internet of Everything
2020 - 2040	Generational & Demographic Transition

Source: CEL & Associates, Inc.

Disposing of non-core, underperforming and unprofitable assets and disengaging from non-profitable service agreements are additional actions needed to control one's destiny. In a Year of Living Dangerously removing or eliminating distractions, unprofitable and nonessential or non-core assets, and unprofitable clients is not an option, it should be a top priority. Further, removing underperforming executives and personnel, eliminating redundancy in processes and policies and eliminating the need to "Manage the Manager" must be an area of focus and tactical corrective

actions.

Remember, no one else cares about your future except you...so taking control is another non-negotiable activity to get done.



Determine Your Vision, Purpose & Priorities

If you don't know where you're going, all roads lead there. With a clear, aspirational and memorable vision, an embraced statement of purpose and an aligned set of priorities, real estate leaders can accomplish extraordinary things. While this sounds wonderful, **nearly 70% of real estate firms do not know who or what they are...however, 100% of those organizations "think" they know who they are from historical perspectives...not from a prospective context.** For example, a firm that states, "We are a development firm" misses the fact that they are probably an investment firm that provides development services, not a developer who happens to invest. Or a firm that provides third-party management services thinks of itself as a property management firm rather than a property solutions firm that provides property management services to clients who elect not to manage their own assets. Functions such as property management, leasing, development, project management, construction and acquisitions are merely activities one does to achieve a larger, long-term vision or goal. **Think Socratically.**

KEY STRATEGIES FOR 2019 - 2020

- Lock in long-term debt.
- Dispose of non-core assets and/or clients.
- Reduce leverage and risk.
- Strengthen your brand, values, loyalty and offerings.
- Reduce operating costs and eliminate redundancies, while enhancing service.
- Seek other recurring sources of revenue...leverage the network effect.
- Establish revenue-generating strategic partnerships.
- Upgrade utilization of technology and social media.
- Assure a sustainable enterprise with sustainable governance.
- Place the right people in the right spots.
- Insist every employee have a 20% non-core skill.
- Replace what you have been doing with what needs to be done.

Source: CEL & Associates, Inc.

Unfortunately over 90% of real estate firms today either: [1] do not have a clear and articulated vision; [2] have a vision that many, if not all, cannot clearly recite; [3] have a vision statement that has not been embraced by those empowered to fulfill it; and/or [4] have blended a vision statement, a purpose statement and a mission statement into one statement that few understand and even fewer know how to actualize. **Many real estate firms equate budgets with long-term strategies, more-of-the-same with prospective strategies, and "what-others-are-doing" with "what-I-should-do."** If you look at technology you are using today and technology you were using a decade ago, it is night and day. There is no incremental change; it is transformative change. So too is the need for a clear and embraced vision that is memorable; a statement of purpose that truly acknowledges what you do and for whom; and an aligned list of 8 to 10 priorities that keep everyone on track and focused. **Being all things to everyone is not a solution; it is a distracting mantra that will not enable success in a Year of Living Dangerously.**

Understand The Impact And Role Of Technology In Your Firm

The **tsunami of technological advancements**, technology, the Internet of Everything, robotics, artificial intelligence, communications, the Cloud, predictive analytics and data management permeates



and is an integral part of everything that is done within the real estate industry. From online leasing to augmented reality, from building information modeling to data storage and retrieval, from drones to modular construction, from online retail sales to wearable technology and from blockchain to e-commerce, everything within the real estate industry is changing...and at an accelerated pace. The impact of 5G, the emergence of Smart Cities, driverless cars, quantum computing and singularity will transform how real estate is acquired, financed, designed, developed, managed, constructed and regulated. **No one and no aspect of the real estate industry will be exempt.**

The expansion of connected devices, cyber security, augmented analytics, natural language generation, healthcare administration, smart buildings and cross-industry collaboration will reshape the real estate landscape. Smart-home-based healthcare technology will transform multifamily senior housing and residential sectors. Surveillance technology will provide advice if you have a cough, fever or changes in emotional states. While shopping malls are in a declining mode, retail is rapidly growing using different channels. Last mile autonomous deliveries will be commonplace. However, **over the next decade there will be a clash between citizens, tech companies and government on how to protect, access and manipulate data.**

What is your firm's long-term tech strategy? How have you examined and created strategies to address the increasing role of technology? What aspects of technology would be a "game-changer" for your firm...and your job? What technology measures and/or metrics are you or should you be utilizing to manage your business more effectively? Is your IT Department or function more of a Help Desk than a Strategic Partner? How can technology facilitate better investment decisions, development, leasing and property management? In a Year of Living Dangerously, understanding and figuring out the impact and the role of technology in your firm is mission critical.

It is important to remember that the IOT and the IOE is a business, not a tech opportunity. The real estate industry is the largest commodity in the world with, according to Forbes Magazine, an estimated \$217 trillion valuation. However, the real estate industry has been slow to adopt transformative technologies and applications and is often mired in the traditional ways of doing things, which is inefficient, cumbersome, costly and sporadic. The continued advancement of 3D printing to create apartments and commercial buildings will dramatically alter today's development and construction processes. In the growing model of buyer/seller and occupier/landlord relationships, technology within a decade or so will eliminate the middleman, many brokerage and property management functions.

In 2017 more than \$5 billion was raised for real estate tech investments. **In 2018 real estate tech start-ups raised \$3.4 billion in funding**, a five-fold increase from 2013, according to CB Insights. Firms such as Fifth Wall Ventures, Vision Fund, SoftBank, Khosla Ventures, GGV Capital and MetaProp, among others, are leading the way to real estate industry's tech future. In June 2018, JLL



created a \$100 million tech fund called JLL Spark Global Venture Fund. Colliers International has teamed with Techstars to launch Colliers Proptech Accelerator.

Technology is firmly in the DNA of the real estate industry. The impact is significant, the opportunities unlimited and the rewards unmatched. Airbnb has over a \$30 billion valuation to take on the hotel industry. WeWork is valued around \$20 billion and is primed to take on office space providers. Amazon is redefining the retail real estate platform and experience. Technology is an opportunity to make better decisions, operate buildings more efficiently and make workers more productive. Early adapters and adopters will experience exponential growth. Those who wait on the sidelines will likely become extinct in a Year of Living Dangerously.

Remember, Demographics Shape Demand

Without an end-user, real estate buildings would remain vacant. Without customers, tenants, residents, consumers and clients, real estate owners and operators would not exist. Age, gender, ethnicity, marital status, occupation, income, education level and religion [among many other attributes] shape and reshape the demand for real estate assets. Unfortunately, far too many real estate firms are stuck in the past...using population and job growth as the sole demand generators and thus fail to accurately identify, underwrite, capitalize and/or harvest existing and created opportunities. Few firms utilize psychographic or behavioral segmentation analytics. Understanding the lifestyles of your customers, their interests, opinions and attitudes is as important as counting heads. Having knowledge regarding the type of employment/job, online shopping, travel time to and from work, hobbies, recreational likes, vacation preferences and consumption patterns will reveal existing and trending real estate opportunities.

Important Trends For Real Estate Owner/Operators

- In 2019 Millennials are projected to be the largest living adult generation in the U.S. [73 million vs. 72 million Baby Boomers].
- 55% of Americans over the age of 18 are married, down from 70% in 1950.
- The “gray divorce rate” [divorce among those 50 and older] has doubled between 1950 and 2015.
- A record 61 million Americans are living in multigenerational households.
- One-third of consumers buy from brands based on their social and environmental impact.
- Around 69% of Americans have less than \$1,000 in savings.
- There are now more households with dogs than there are with children.
- Education is moving away from fixed walls to digital experiences and interaction.
- Fifty-five percent [55%] of real estate leaders plan to retire or phase down within 10 years.

Millennials were far slower than other generations to adopt many of the traditional markers of adulthood, even though young adult mobility is at its lowest level in 50 years. The share of women in the workforce is likely to peak at 47.1% in 2025 before declining. Between 2015 and 2025, because of immigration, the working age population will increase by 18 million, thus supporting a retiring Baby Boomer generation. The U.S. is getting more diverse. The U.S. population is shifting to the west and

south away from the high tax, high cost, highly regulated states (i.e., California, Illinois, New York, New Jersey). How are these trends factored in underwriting analytics?

In a Year of Living Dangerously it is imperative to understand “real” demographic shifts and psychographic trends/preferences. **Too often real estate companies are focused on “pipeline,” number of starts, square feet or units managed, or capital deployed...forgetting that without understanding the true generators of demand (the end-users or occupiers of space and place), creating value will be significantly impaired.**

Closing Comments

The year 2019 will be remembered as the crucible year of change, cycle peaking, the accelerated beginning of digital transformation, legacy “handoffs” to next generation stars, emergence of new and well-capitalized competitors, acknowledgement that yesterday’s practices will not be tomorrow’s business model, and the redefinition of purpose. **In a Year of Living Dangerously, it will only be dangerous for those unable and/or unwilling to change.** The role of real estate in society cannot be forgotten amid a tsunami of technology, uncertainty, surprises and welcomed changes. **Now is the time to shape and control your destiny in the Year of Living Dangerously.** I welcome your comments, feedback, insights and perspectives.

Regards,



Christopher Lee

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